



Office of City Auditor Memorandum

Date: February 20, 2004

To: Phil M. Thordarson, Traffic Operations Manager, Seattle Department of Transportation
Shelley Barouh, Fund Custodian, Traffic Management, Seattle Department of Transportation

From: Scottie Nix, Assistant City Auditor for Internal Controls *Scottie Nix*

Subject: Review of Seattle Department of Transportation (SDOT) Traffic Management Petty Cash and Cash Receipts Handling Procedures

As part of our ongoing monitoring of City cash handling operations, our office conducted a visit to SDOT's Sunny Jim site on August 15, 2003. During the visit we counted the SDOT petty cash funds and reconciled them to the balance on the City's SUMMIT accounting records. We also discussed the procedures used to sell surplus signposts. We found the site's SDOT fund custodian to be helpful and eager to implement our recommendations.

Background and Purpose: SDOT's Traffic Management section located at the Sunny Jim building has a \$500.00 petty cash fund and accepts cash or checks for surplus signpost sales. The signposts are acquired as the result of City crews removing them due to breakage, wood rot, or road construction. The posts are then brought to the Sunny Jim location and stored outside in the yard. The surplus signposts are available for sale to the public for \$1 each. The signpost sales are not advertised to the public and knowledge of them is transferred via word of mouth. According to the cash-handling questionnaire submitted to us by SDOT for the Sunny Jim site, signpost sales in 1999 accounted for almost \$1,200 in sales to 32 customers and \$1,600 in sales to 69 customers in 2000.

Scope: The Office of City Auditor (OCA) conducted this audit to evaluate the effectiveness of SDOT's internal controls for the petty cash funds and the surplus signpost cash receipting function at the Sunny Jim site. We conducted the audit planning and fieldwork during August and September 2003. To conduct the audit, we asked the site's SDOT fund custodian to answer 48 questions contained in our cash-handling questionnaire covering the following internal control objectives:

- Physical Safekeeping of Cash and Checks
- Segregation of Duties
- Cash Receipting
- Cash Depositing
- Monitoring

We reviewed SDOT Traffic Management's responses to our questionnaire, examined relevant cash handling documents, counted the petty cash fund, and discussed the cash handling procedures for signpost sales.

We conducted this audit in accordance with the Standards for the Professional Practice of Internal Auditing.

Results: Using the format of the cash-handling questionnaire, we assigned color-coded ratings to SDOT's cash handling controls at the Sunny Jim site. The color rating codes are as follow:

- **Green Rating** = The Office of City Auditor (OCA) believes that risk has been reduced to an acceptable level.
- **Yellow Rating** = OCA believes the risk, while not unacceptable, could be further reduced or would benefit from additional monitoring by management.
- **Red Rating** = OCA believes that an acceptable level of risk has not been achieved. Management needs to address this risk and reduce it.

Controls over petty cash at the site appear to be reasonable; however, we noted several issues related to the sale of signposts that SDOT should address. We identified seven controls (i.e., red ratings) that should be improved as soon as possible and have provided specific recommendations on how they could be strengthened. We also found 27 other items of lower risk (i.e., yellow ratings), some of which we made recommendations for improved control. We note that many of the items received a lower risk rating because of the relatively small amount of cash processed at the site.

Our recommendations and detailed results are provided in the matrix below.

	INTERNAL CONTROL OBJECTIVE QUESTION	OVER ALL ANS WER	OCA RATING	COMMENTS
•	Physical Safekeeping of Cash and Checks			
1.	Are adequate physical facilities provided for safeguarding cash?	Yes	Yellow	Kept in a locking desk in an office shared by two people.
2.	If secure areas are provided, such as safe or locked boxes, are the safe combinations and keys restricted to a minimum number of employees?	Yes	Yellow	The office access is limited. The office door is kept locked at all times. The office keys are held by the two office inhabitants and three other people, the manager, the supervisor and the janitor. This is not ideal, but is acceptable because of the small amount of funds kept at the site.
3.	Are lists maintained by senior individuals identifying who knows safe combinations and has keys to locked boxes and areas?	No	Yellow	To facilitate the safety of assets, senior managers should maintain lists that identify those persons who know the safe combinations and have keys to locked boxes and areas where cash is stored or handled. We recommend that SDOT managers create and maintain a list

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				of who has authorized access to the cash handling area and keys to the cash boxes.
4.	Are safes and cash handling areas locked at all times when unattended?	Yes	Green	
5.	Are safe combinations changed and/or keys turned in at the transfer or termination of key employees or for other security reasons?	No	Yellow	There has not been a change in the cash custodian in several years. SDOT also has an employee exit checklist that requires departing employees to turn in keys to doors, desks, files, etc.
6.	Are only authorized individuals allowed access to cash handling areas?	No	Yellow	The cash handling area is not clearly defined as such. The area is an office that is shared by two people and accessible by three others who have keys. This is not ideal, but acceptable given the small amount of funds involved.
7.	Does the cashier have access to a security alarm or buzzer that would alert management or security personnel of a robbery or other threatening activities?	No	Yellow	The risk to the City is low due to the small amount of funds kept at this location.
8.	Has the Seattle Police Department or professional security experts evaluated your premises and your procedures?	Yes	Green	
9.	Has fraud, robbery or other type of incident occurred in the cash handling area?	No	Green	
10.	Have all the cashiers completed the Finance Division cash handling training?	Yes	Green	
	• Segregation of Duties			
11.	Are all bank statements, deposit slips, etc. sent to someone other than the person making the deposit?	Yes	Green	SDOT Accounting prepares deposit slips.
12.	Are bank statements reconciled on a monthly basis?	Yes	Green	SDOT Accounting reconciles the bank statements.
13.	Are the individuals responsible for the cash receipt function prohibited from signing checks or reconciling the bank statement?	Yes	Green	
14.	Are there individuals whose official duties make them responsible for the sight of cash deposits, transmittal of deposits to couriers for delivery to the City	Yes	Red	Due to the small number of employees at this site, complete segregation of duties is difficult to achieve. Management is aware of the risk and has accepted it. No

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	Treasury, and receipt of information from Treasury about prior deposits?			recommendation at this time.
15.	Does a person who does not prepare bank deposits and does not have access to accounts receivable open the mail?	NA	Green	No payments are received via mail.
16.	Are employees who collect and deposit cash prevented from recording cash receipts and preparing general ledger entries?	Yes	Green	
•	Cash Receipting			
17.	Are all receipts adequately controlled by cash register, pre-numbered receipt slip, invoice or other equivalent means?	No	Red	Currently, the person responsible for signpost sales is the only one who controls the invoice forms. Nor are they logged so that someone could determine which invoice number should be next. There is also no reconciliation performed of SDOT's accounting records with the amount recorded as received in the site's documents.
18.	Is the receipting process capable of generating reports or records with summary totals and amounts to reconcile to?	No	Red	The current cash receipting process cannot generate reports or records with summary totals and amounts that can be reconciled. We recommend that the site fund custodian obtain blank receipt forms from SDOT Accounting, and create and use a cash transmittal log. SDOT Accounting should maintain a log of the receipt numbers issued to the Sunny Jim site, and perform periodic reconciliations of the receipts used and still in inventory.
19.	Do cashiers record all transactions in the cash register or on a pre-numbered receipt slip, invoice or other equivalent means immediately upon receiving money?	Yes	Green	Currently SDOT uses three-part invoice forms that are not designed to serve as receipts and do not contain all the elements needed to ensure adequate controls over cash received (e.g., a detailed description of the composition of the funds received - cash or check). SDOT officials said all transactions are recorded promptly. We recommend that SDOT begin using three-part pre-numbered receipt books.
20.	Do the cashiers provide receipts to all customers?	Yes	Green	
21.	Are signs placed at the cashier's	No	Yellow	We recommend that SDOT place a

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	area advising the public that a receipt is required?			sign in the area that states that a receipt is required, and displays a telephone number a customer could call if no receipt is provided. An SDOT official stated that they have posted a sign.
22.	Is only one cashier individually responsible for each cash drawer at any given time?	NA	NA	No cash drawers in this one-person operation.
23.	Are employees required to get a supervisor's approval before voiding transactions?	No	Yellow	We were told that there have been no voids at the site. This type of transaction occurs in normal cash handling operations. We recommend the creation of a log to record such transactions. (The log is specifically detailed in number 27 below.)
24.	Is the cashing of personal checks made payable to the City prohibited?	Yes	Green	
25.	Are checks restrictively endorsed "City of Seattle, For Deposit Only" immediately upon receipt?	No	Red	According to City officials, the current banking arrangement precludes this control from being implemented.
26.	Does the site have a process to summarize the number of voids, no sales, refunds and other miscellaneous transactions?	No	Red	We were told that there are no recorded voids or other miscellaneous transactions at the site. These transactions occur in normal cash handling operations. We recommend the creation of a log to record such transactions. (The log is specifically detailed in number 27 below.)
27.	Are cash receipts reconciled with the cash register "Z" tapes or cash log on a daily or periodic basis?	No	Red	<p>The site does not use a cash register, which means that cash receipts are not reconciled with cash register "Z" tapes. When we looked for an alternate process that would compensate for this internal control weakness, we found that the receipts are not logged nor is the individual deposit process documented enough to be audited. We recommend that SDOT create a deposit transmittal log to be kept at the Sunny Jim site. The log would include columns for the:</p> <ul style="list-style-type: none"> • Date of checks received, • Name of the person who bought the signpost(s), • Form of payment (i.e., cash or

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				check), <ul style="list-style-type: none"> • Payment amount, • Signature of the person taking the payment to SDOT Accounting, • The signature of the SDOT Accounting official that received the funds to indicate that he/she has received the funds and agrees with the stated delivered amount.
28.	Are the cash register "Z" tapes numbered sequentially, dated and time stamped?	N/A	N/A	The site doesn't use cash registers.
29.	Are cash receipt refunds made by check/warrant to the individual making the deposit?	No	N/A	No refunds are made for signpost sales.
30.	Do you accept credit cards at the cash-handling site?	No	N/A	
	• Cash Depositing:			
31.	Are receipts recorded promptly and deposited intact within 48 hours as required by City policy?	No	Yellow	Very little activity, but deposits are normally made within a week of being received.
32.	Do you prepare deposit slips indicating the amount of funds deposited?	No	Yellow	Deposit slips are not prepared at the site that indicate the amount of funds to be deposited; instead, the funds are taken to SDOT Accounting for deposit to the City accounts. We recommend that the accounting office give a receipt to the site cash custodian when he/she delivers funds for deposit.
33.	Do deposit slips show the amount of each check deposited?	Unknown	Yellow	We did not verify this because the deposit slips are prepared at SDOT Accounting. If a log were created to document the receipt of the deposit at SDOT Accounting, this could provide a document trail, which could help to reduce the risk to an acceptable level. We recommend that the accounting office give a receipt to the site cash custodian when he/she delivers funds for deposit.
34.	Is the make-up of the deposit (amounts of coin, cash denomination or check) clearly documented?	No	Yellow	The first step in the deposit process involves the fund custodian taking the funds to SDOT Accounting personnel who create the deposit. The composition of the funds delivered by the site custodian to SDOT Accounting for deposit (i.e., coin, cash denomination or check) is not

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				documented. We recommend that the fund custodian use receipt forms that document the type of payment (e.g., check or cash) and transmittal paperwork that documents the composition of the funds transmitted.
35.	Are duplicate deposit slips prepared (one sent to the bank and one retained by the organization)?	N/A	N/A	
36.	Do you use tamper-proof deposit bags for deposit?	No	Yellow	<p>Currently the site fund custodian does not use bags to transmit funds to SDOT Accounting for deposits in the City accounts. One method to improve the controls over this process would be for the site fund custodian to use tamper-proof bags. We recommend that SDOT use tamper-proof bags.</p> <p>We also recommend that the SDOT accounting office give a receipt to the site cash custodian when she delivers funds for deposit. The site cash custodian should save these receipts with the deposit log to document that all funds received for signpost sales have been delivered to the SDOT accounting office. Tamper-proof deposit bags are available from the Department of Executive Administration's Treasury Office.</p>
37.	Does a person other than the cashier verify the deposit against the cash receipt?	No	Yellow	<p>Currently, neither SDOT staff nor management periodically add up the total signpost sales cash receipts and balances this amount to the amount deposited. We recommend that once the deposit log recommended in number 27 is created, it be used to balance to the total receipt book amounts and the cash/check composition.</p>
• Monitoring				
38.	Are receipts accounted for and balanced to receipt records (register tapes, receipt books etc.) on a daily basis?	No	Yellow	<p>Currently, neither SDOT staff nor management periodically add up the receipts and balances this amount to the amount deposited. We recommend that once the log in number 27 is created, it be used to balance to the total receipt book</p>

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				amounts and the cash/check composition.
39.	Does management verify the cash and check amount on the deposit slips to a deposit transmittal log?	No	Red	Management does not verify the cash and check amount on the deposit slips to the log. We recommend that once the log in number 27 is created, management use it to balance to the total receipt book amounts and the cash/check composition.
40.	Are all overages and shortages reported to management?	No	Yellow	There is no policy that requires that overages and shortages be reported to management. We recommend that a policy be created requiring that they be reported on a monthly basis.
41.	Are unusual variations in revenue investigated by management?	No	Yellow	We recommend that at least annually a report be prepared for SDOT management that shows the trend in surplus signpost sales revenue. The report should display the amount of revenue for the past three years and discuss any decreases or increases in terms of the number of signposts available for sale and the number of customers purchasing the posts.
42.	Does management investigate all substantial variations from norms such as cash register voids, no sales, refunds, errors, etc., and unusual cash activity?	No	Yellow	We do not know whether management has been investigating all substantial variations from norms such as cash register voids, no sales, refunds, errors, etc. We recommend that at least annually a report be prepared for management's review that shows the trend in surplus sign post sales revenue. The report should display the amount of revenue for the past three years and discuss any decreases or increases in terms of the number of signposts available for sale and the number of customers purchasing the posts.
43.	Are all original voided or canceled receipts retained and accounted for in the records?	No	Yellow	We recommend that a tracking system be developed to provide assurance that all receipts are accounted for.
44.	Are all pre-numbered documents that are voided accounted for?	N/A	N/A	
45.	Does an independent employee periodically count cash funds on a surprise basis?	No	Yellow	We recommend that someone from SDOT perform a periodic surprise cash count of the petty cash fund and review the signpost sales log and receipts for reasonableness.

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46.	Does the cash handling area have written departmental cash handling policies and procedures?	No	Yellow	There are no up-to-date, written SDOT cash handling policies and procedures for the Sunny Jim cash-handling site. We recommend that SDOT create a manual that describes the tasks to be performed related to the handling of the site's petty cash and signpost revenues.
47.	Do you perform criminal checks on new employees?	Yes	Green	
48.	Are criminal checks made periodically after hire?	Yes	Green	
49.	Are all cashiers required to take annual vacations, and the responsibilities handled by someone else during their absence?	No	Yellow	Small amount of funds at the site reduces the risk.

cc: Richard McIver, Chair, City Council Finance, Budget, Business and Labor Committee
Richard Conlin, Chair, City Council Transportation Committee
Grace Crunican, Director, Seattle Department of Transportation
Steve Viney, Finance Director, Seattle Department of Transportation
Nancy LaWall, Accounting Manager, Seattle Department of Transportation
Carol Metcalf, Director, Accounting Services, Department of Executive Administration
Aimee Strasko, Budget Analyst, Department of Finance
Regina LaBelle, Counsel to the Mayor
Andrew Lofton, Chief of Departmental Operations
Susan Cohen, City Auditor
Rick Thorson, State Auditor's Office